TVA Group Inc. **annual report 2001**

corporate profile

TVA Group Inc. (TVA Group, TVA or the Company), founded in 1960 under the name Corporation Télé-Métropole inc., is an integrated communications company with operations in broadcasting, the production of audiovisual content, magazine publishing, editing and the merchandising of various products.

TVA is the largest private-sector producer and broadcaster of French-language entertainment, news and public affairs programming in North America. TVA owns six of the 10 stations comprising the TVA Network, namely: CFTM-TV (Montreal), CFCM-TV (Quebec City), CFER-TV (Rimouski), CHLT-TV (Sherbrooke), CHEM-TV (Trois-Rivières) and CJPM-TV (Chicoutimi). The four remaining TVA Network affiliated stations are: CFEM-TV (Rouyn), CHOT-TV (Hull), CHAU-TV (Carleton) and CIMT-TV (Rivière-du-Loup). The latter two stations are owned by Télé Inter-Rives Ltée, in which TVA has a 45% ownership. The Company also holds an equity position in CKMI-TV (49%—with no control or influence), a Global Television Network affiliated station. TVA Network's signal reaches nearly the entire French-speaking audience in the province of Quebec and a significant portion of French-speaking viewers in the rest of Canada. Moreover, TVA holds an interest in specialty analogue services such as *Le Canal Nouvelles* (LCN) (100%) and *Canal Évasion* (10%), as well as Category 1 and Category 2 specialty digital channels (five in English and five in French), and the *Canal Indigo* pay-per-view channel (20%).

TVA operates in the publishing sector through its subsidiary, TVA Publishing Inc. (TVA Publishing), whose general interest and entertainment weeklies and monthlies make it the leading French-language magazine publisher in Quebec. TVA is also active in the sector of merchandising of various products and in infomercials.

financial highlights

	2001	2000
Operating revenues	**$344,652,000**	$289,288,000
Operating income before depreciation, amortization, financing charges and other items	**70,550,000**	62,813,000
Net income before non-recurring items	**24,462,000**	23,554,000
Net income (loss)	**(121,362,000)**	40,207,000
Cash flows provided by current operations	**16,362,000**	38,417,000
Total assets	**405,770,000**	582,989,000
Long-term debt	**53,875,000**	112,451,000
Shareholders' equity	**$169,097,000**	$321,618,000
Net earnings before non-recurring items per share	**$ 0.71**	$ 0.77
Net earnings (losses) per share	**(3.55)**	1.31
Cash flows provided by current operations per share	**0.48**	1.26
Book value	**$ 4.91**	$ 9.49
Debt ratio	**24%**	26%
Weighted average number of shares outstanding	**34,214,809**	30,591,160
Number of shares outstanding	**34,428,997**	33,874,822
STOCK PRICE —TVA.B (TSE)		
High	**$ 24.15**	$ 37.00
Low	**12.05**	16.00
Close	**$ 13.30**	$ 23.50
NUMBER OF FULL-TIME EMPLOYEES (TVA Group and its 100% owned subsidiaries)	**1,150**	1,280

number of shares (as at August 26, 2001)

	Total	QMI shareholding*	
Class A shares (with voting rights)	4,320,000	4,316,034	99.9%
Class B shares (without voting rights)	30,108,997	7,910,583	26.3%
Total	34,428,997	12,226,617	35.5%

* Quebecor Media Inc. (QMI) shareholding through Le Groupe Vidéotron ltée

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Fiscal 2001 was marked by the October 23, 2000 acquisition of Le Groupe Vidéotron ltée by Quebecor Media Inc. (Quebecor Media or QMI), a transaction that brought TVA Group under the QMI umbrella. Subject to the Canadian Radio-television and Telecommunications Commission's (CRTC) approval, this transaction placed TVA under trusteeship for more than 11 months. Since September 25, 2001, the date on which the CRTC approved the transaction, TVA is no longer under trusteeship and is under QMI's control.

Fiscal 2001 was a year of transition and repositioning for TVA Group, which will now be focusing its efforts and resources on its two main sectors, Broadcasting and Publishing, as well as their related activities. The decisions made regarding TVA International Inc. (TVA International), of which TVA holds 70% and CDP Capital Communications inc. (CDP Capital Communications) 30%, are in keeping with this repositioning.

The acquisition of Motion International Inc. in May 2000 and the transfer of TVA Group's international production activities to TVA International did not produce the expected results. Neither the significant investments made by TVA and CDP Capital Communications following the acquisition, nor the rationalization and cost-cutting initiatives, were sufficient to achieve a turnaround in TVA International's financial position and to ensure its long-term profitability.

In the fall of 2000, an in-depth analysis of the international production sector showed that the investments required to maintain operations would generate only weak profit margins in the long term. Consequently, in January 2001, TVA Group and CDP Capital Communications determined that it would be better to focus on TVA International's activities in the sectors of distribution and production of animation and youth programming. This decision resulted in a $71-million write-down of the company's assets.

In the following months, the TVA International management team continued to analyze the production and distribution sectors, in the context of increasingly difficult market conditions, especially with respect to the financing of its operations. Difficulty in obtaining financing for the production of new animation and youth programming, combined with a slowdown in the distribution sector as a whole, led TVA International to retain the services of an investment bank in order to evaluate alternative options. Within this mandate, a process to sell the company's assets was initiated as a means of maximizing the value of the investments. The results of this process convinced management to take a further after-tax write-down of $123 million on TVA International assets. This write-down amounted to a complete write-off of TVA's investment. Although a painful one, this decision opens up new opportunities which, depending on the decisions made in fiscal 2002, could allow TVA to continue its operations on a much more modest scale.

The Company's results for fiscal 2001 were also impacted by the ongoing fragmentation of the media market, a fact reflected in the performances of both the Broadcasting and Publishing sectors. To protect operating margins, the Company undertook a major cost-cutting initiative, as well as an administrative restructuring at the beginning of fiscal 2001, while increasing its efforts to develop alternative revenue sources. Earnings before income taxes, depreciation and amortization (EBITDA) were $70.6 million, an increase of $7.7 million over the previous year, and net earnings before non-recurring items increased by $0,9 million to $24.5 million for fiscal 2001. Including non-recurring items, TVA recorded a net loss of $121 million for fiscal 2001.

Advertising sales by the TVA Network, the primary source of revenues for the Company, declined mainly due to competition from specialty television channels. This competition is not insignificant due the fact that specialty channels, whose revenues are generated largely by royalties paid by distributors, can be more aggressive in their advertising rates.

Attracted by the growth potential of specialty channels, TVA is determined to stand out among the new players. Of the 12 applications filed by the Company and its partners with the CRTC, 10 were approved; five English-language and five French-language. On September 7, 2001, with the launch of its first two specialty channels, *mentv* and *Mystery,* TVA Group is proud to have made its initial foray into the English-language market. In the fall of 2002, the Company will launch three new French-language specialty channels, *Télé Ha! Ha!, LCN Affaires* and *Mystère.*

In an increasingly competitive environment, the TVA Network has maintained its dominance of audience share, while the average number of hours that viewers spend watching LCN continues to grow. Although the development of specialty channels will require significant investments, the Company firmly intends to continue to invest in its general-interest television network, which remains TVA's core activity. As always, the TVA Network will continue to deliver quality programming that is entertaining, accessible and responsive to the needs and preferences of its audience in order to remain number one in the eyes of Quebec television viewers. Indeed, by making the needs of viewers a top priority for the last 40 years, CFTM-TV Channel 10—the TVA Network—has risen to the top rank in French-language television in North America.

In the Publishing sector, advertising sales increased significantly thanks to changes that have made our magazines more attractive to advertisers, while continuing to respond to the preferences of our readers. The cost cuts made during the fiscal year also helped us to achieve the profitability objectives we set when TVA Publishing was acquired. Ongoing attention to meeting the expectations of readers will ensure that TVA Publishing continues to dominate newsstand sales of French-language magazines in Quebec.

To succeed in the rapidly evolving media sector, and to meet the expectations of viewers and the demands of financial markets, our organization must be more flexible than ever and supported by cutting-edge infrastructures. We will also be focusing more attention in the near future on interactive television, and we intend to be among the first to leverage this technology in a way that is user-friendly and rewarding for viewers. Since we are one of the many components of QMI, we can integrate this new technology more efficiently.

TVA's majority shareholder with a 35.5% equity interest, QMI, (held at 54.7% by Quebecor Inc. and at 45.3% by Caisse de dépôt et placement du Québec subsidiary CDP Capital Communications) is one of the largest communications and media groups in Canada. QMI's main holdings are:

> Vidéotron ltée, the number one cable television company in Quebec and number three in Canada;
> Sun Media Corporation, the second-largest newspaper group in Canada;
> Publicor, with its magazines and newspapers;
> Netgraphe Inc., which owns the CANOE network, Canada's leading bilingual, integrated media and Internet services site;
> Nurun Inc., a subsidiary operating in the area of Web integration, with offices and alliances in different parts of the world;
> Archambault Group Inc., the largest network of record stores in Eastern Canada;
> Le SuperClub Vidéotron ltée, the leader in video rentals and sales in Quebec.

The combination of these assets with those of TVA Group, the number one French-language general-interest television network in North America and the largest publisher of magazines in Quebec, represents a powerful force in the communications and media sector. There is no doubt that TVA Group will benefit from being a member of this peerless group, which has extremely strong roots in Quebec and a significant presence elsewhere in Canada and around the world.

TVA's management team firmly believes that the convergence model offered by Quebecor Media will be very advantageous for the Company and that its shareholders will ultimately be real beneficiaries of this marriage between "the container and the content."

Two major appointments were announced during the year. Mr. Raynald Brière was named Senior Vice-President, Broadcasting, and General Manager, TVA Network, and Mr. Paul Buron was appointed Senior Vice-President and Chief Financial Officer. Together the members of the management committee showed strong leadership and determination in the face of the organizational and financial challenges experienced by the Company during the fiscal year.

In conclusion, we would like to thank all the members of the Board of Directors for their support and counsel throughout the year, as well as all the employees of TVA who, despite a demanding competitive environment, have continued to demonstrate professionalism and flexibility by delivering quality programming and publications that respond to the needs and preferences of a vast number of television viewers and readers.

Raynald Brière
Senior Vice-President, Broadcasting,
and General Manager, TVA Network

Paul Buron
Senior Vice-President
and Chief Financial Officer

"This company understands what television viewers want; it's part of the culture. Forty years later, the company is still number one."

Vincent Gabriele, *President, producer, Les Productions Sovimage*

40 years your entertainer

CFTM-TV Channel 10 went on air on February 19, 1961. During the gala celebrating its launch, J. Alexandre de Sève, President and Founder of Télé-Métropole inc., requested the privilege of entering viewers' homes and being treated as a member of their family, or at the very least as a close friend.

"We are here to serve you and we have a strong desire to serve you well. We are counting on you to help us accomplish this by letting us know what you like, what we are doing well and not so well. We will not be satisfied or consider ourselves successful until the day that CFTM-TV Channel 10 is recognized not only as the Télé-Métropole channel but **the** channel in the *Métropole* (Greater Montreal)," he said.

Forty years later, the words of J.A. de Sève live on. The company he founded remains more than ever close to its viewers, attentive to their needs and striving year after year to offer quality programming that reflects what they like. It is by living the philosophy of its founder that CFTM-TV Channel 10 became **the** channel in Greater Montreal and that later, TVA became **the** network for all of Quebec.

The challenge for TVA in the coming years will be to maintain and consolidate its position of general-interest broadcaster in an increasingly demanding and competitive market, to play a very active role in the growth of specialty channels, particularly in the digital world, and to work closely with its controlling shareholder, QMI, on developing convergent and interactive projects. Success will be possible only if it remains close to its audience, evolves with it and continues to provide, better than any of its competitors, a television experience that reaches and touches viewers like a member of the family or a close friend. By so doing, TVA will continue to remain close to its viewers for a very long time!

1966

Olivier Guimond
Cré Basile

2001

Michel Barrette, Gildor Roy
Km/h

1979

Michel Jasmin
Bonsoir le monde

2001

Marc Labrèche
Le grand blond avec un show sournois

Roland Chenail, Yves Corbeil *Les Bergers*
Rita Lafontaine, Angèle Coutu *Le Retour*

1970

2001

broadcasting

The TVA Network

The TVA Network's domination of the Quebec market never wavered in fiscal 2001, as demonstrated by the spring 2001 and fall 2000 Bureau of Broadcast Measurement surveys. Despite a more plentiful and varied television offering, the TVA Network held its market share, capturing respectively 36% and 37% of the French-language market in the Province of Quebec, which is greater than the share of the three competing networks combined. No other general-interest television station in North America has such a decisive leadership position in its market. During prime time, from 7 p.m. to 11 p.m., TVA's ratings even increased slightly in the spring 2001 ratings period, especially in Greater Montreal.

The TVA Network's exceptional appeal to the Quebec public can only be explained by the network's loyalty to its fundamental strategy, consisting of presenting quality programming that is both accessible and entertaining, built around personalities associated with TVA and representative of its values. The vast majority of shows broadcast on TVA are produced in Quebec with home-grown artists and stars, by either the TVA Network's member stations, by TVA subsidiary JPL Production inc. (JPL), or by independent producers.

In the spring of 2001, the TVA Network tied its all-time best viewership ratings, with seven of the shows on the list of the 10 most-watched programs in Quebec, including *Fortier, Le Retour* and *2 Frères.* Every year, the network's lineup includes established favorites that have long since won large and loyal audiences, along with some newcomers. *Fortier,* TVA's first major police drama, was a runaway success in the spring 2001 ratings, with an average of 1.8 million viewers and the highest number of 2001 *Prix Gémeaux* nominations. For the new season that has just begun, TVA is innovating again with, among others, its first satirical *Si la tendance se maintient,* and romantic comedies *Cauchemar d'amour.*

In the news and public affairs sectors, TVA's noon, 6 p.m. and 10 p.m. newscasts continue to draw the largest number of viewers in their respective time slots. *Le TVA, édition 18 h,* with Pierre Bruneau, remains Quebecers' preferred newscast. The investigative newsmagazine *J.E.,* as well as the *Arcand* show, also post excellent results. Late-evening news anchor Simon Durivage was named male personality of the year at the *Gala MetroStar* in spring 2001.

Although film is not a major component of its programming, TVA strives to broadcast the most popular movies. Among movies presented last year were *Titanic, La Guerre des Étoiles* and *Parc Jurassique.* In addition, TVA continued to support the Quebec film industry by featuring several home-grown films, including *La Vie après l'Amour* and *Miracle à Memphis.*

"There's a warmth and pleasure to our work, the pleasure of creating. At the same time, we feel a sense of trust and that's fantastic."

Rita Lafontaine, *actor*

1967

2001

Jean Lajeunesse, Janette Bertrand *Adam ou Ève*
André Robitaille *Les Mordus*

Market Share (%)

Province of Quebec, francophone market
(Monday to Sunday, 6 a.m. to 2 a.m., BBM all 2+)

	Spring		Fall	
	2001	2000	2000	1999
French-language stations				
TVA Network	**36**	**36**	**37**	**38**
Société Radio-Canada	19	21	20	22
Réseau TQS	14	13	14	12
Télé-Québec	2	2	2	2
English-language stations	4	4	4	3
American stations	3	3	3	3
Specialty and pay TV channels	19	16	17	14
Others	3	5	3	6

JPL Production

Subsidiary specializing in television production and the TVA Network's main content supplier, JPL Production had a very active year. In fact, JPL increased its production aimed at its network of dramas, game shows and service shows to 1,650 hours, about 100 more than last year.

A number of JPL programs were recognized for their exceptional quality at the 2001 *Prix Gémeaux,* as well as during the spring 2001 *Gala MetroStar,* which is a people's choice awards. *La Lampe Magique* show, co-produced with Loto-Québec, was named the best television production at the 2000 *Batchey Awards* held by the *North American Association of State & Provincial Lotteries.*

Also during the year, JPL made an initial foray into the commercial production sector, working on projects for several major clients. Among JPL's high-profile successes were its *1 800 Allô Canada* and *Attractions Canada* campaigns, aimed at informing the Canadian public of the importance of the services offered by various Government of Canada ministries and agencies. In addition, one of its advertising campaigns produced for a multinational was rebroadcast in Australia. The year 2002 is shaping up to be just as promising for JPL's commercial-production sector.

Jacques Moisan
Pierre Bruneau,
News anchor persons

1968

2001

LCN

Launched in September 1997, *Le Canal Nouvelles,* the TVA all-news channel featuring complete information packages every 15 minutes, continued its growth during the past year. While maintaining a weekly audience of 1.9 million viewers, LCN successfully increased its average viewing time by more than 20%, with each audience member devoting an average of 67 minutes per week, compared with 56 minutes last year (Nielsen, 2001-2000, province of Quebec, francophone market, Monday to Sunday, from 6 a.m. to 6 a.m., all 2+).

This increase reflects mainly the quality of its team and a dynamic format that allows viewers to be informed quickly of the important news of the day, at the time of the day most convenient for them. LCN generated total revenues of $12.9 million in 2001, which represents increases of 11% in advertising and 4.4% in subscription revenues. Audio versions of LCN newscasts can always be accessed on the *tva.canoe.com* site, and are also broadcast on *Radio Info 690* from 10 p.m. to 5 a.m.

mentv
Mystery
LCN

"It's a popular television but high quality."

Fabienne Larouche, *author, producer, Aetios Productions inc.*

1997

2001

Esther Bégin *LCN*
LCN *News room*

The New Specialty Channels

In an important decision for the future of the broadcasting industry, the CRTC approved, in November 2000, 10 of the 12 license applications for specialty digital channels filed by TVA in collaboration with various partners. The licenses granted are for five Category 1 digital channels—two English-language and three French—as well as five Category 2 digital channels—three English and two French. The Category 1 digital channels, which offer at least 50% Canadian content, must necessarily be distributed by all Canadian cable companies using digital technology, while the Category 2 channels will not benefit from guaranteed distribution rights.

The two Category 1 digital channels aimed at the national English-speaking market, *mentv and Mystery* (formerly *13th Street*), were launched on September 7, 2001, as planned. TVA was closely involved in the development of these specialty channels, in which it holds 51% and 45.05% interests, respectively. The combined TVA-Global Television experience provides assurance of the quality of these digital channels, which will make an important contribution to the growth and diversity of Canadian broadcasting.

In order to enable digital technology to penetrate a critical mass of homes, thereby improving the potential for the success of its three Category 1 French-language digital channels—*Télé Ha! Ha!, LCN Affaires* and *Mystère* (formerly *13^{e} Rue*)—TVA has postponed their launch until the fall of 2002, with approval from the CRTC. Until then, efforts will focus on the finalizing of partnership agreements as the industry continues to evolve, as well as on the forging of distribution and marketing agreements for each of the new channels. In addition, no date has been set yet for the launch of the *Première Loge/Front Row, Game One/Game One* and *Digipix* Category 2 digital channels.

Janette Bertrand *Comment pourquoi?*
Claire Lamarche *Claire Lamarche*

1961

2001

Sales and Marketing

The television industry in Quebec benefited from a slight increase in total advertising investment during fiscal 2001, however, general-interest television saw its share decrease overall, mainly in favour of specialty channels. In this extremely competitive environment, the Company's broadcasting revenues decreased by 4.2%. TVA was nevertheless able to maintain a share of total advertising investments that was higher than its audience ratings.

This performance is due mainly to the fact that the TVA Network remains a favorite among viewers, attracting a sizable audience with programming that has a major and lasting impact. At LCN, the efforts of the sales team have been successful, with advertising revenues increasing by 11%, to $4.5 million in fiscal 2001.

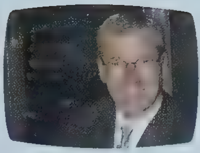
To offset the competitive pressures on the sale of its commercial airtime, the Company continues to develop non-traditional advertising through its Media Creativity service. TVA is also targeting convergence as a source of competitive differentiation by offering customers integrated communications programs that combine television, magazines and other forms of media available within the group. A specialist on the sales and marketing team is now working full-time on the development of this global approach.

"TVA has given many people their start. Today, several of them are independent producers or working in the production industry and playing a major and important role. TVA is a tight knit family... it's a family that's very much in tune with its viewers."

Luc Wiseman, *President, producer, Avanti Ciné Vidéo*

1982

2001



Marguerite Blais *Bien le bonjour*
Guy Mongrain *Salut, Bonjour!*

merchandising

The Merchandising sector, which groups home shopping, infomercials and the sale of various products, generated nearly 4% of TVA's revenues in fiscal 2001.

The TVA Direct inc. subsidiary, 90% owned by TVA, specializes in the merchandising of various products. Among the projects completed during fiscal 2001 were a collection of booklets on Italian cooking based on the *La Trattoria* show and another collection based on *Les Saisons de Clodine.*

HSS Canada inc., a joint venture between TVA and France's Home Shopping Service S.A., a subsidiary of Groupe M6, operates, among others, the *Boutique TVA* home shopping show broadcast on TVA. Due to a reorganization of the television schedule during the year, *Boutique TVA*'s air time was reduced by 21.6% from the previous year. However, the number of articles sold per minute increased by 6.4%. Sales through the TVA Web site doubled but remained marginal.

Club TVAchats, the only Quebec channel devoted entirely to infomercials, 24 hours a day, seven days a week, continued to offer businesses the opportunity to promote or sell their products on television. Broadcasting 15-, 30- or 60-minute messages to a potential 1.4 million homes, *Club TVAchats* remains the ideal medium for product demonstrations or information sessions to promote services.

"TVA has successfully evolved with its clientele over the years. The expectations, needs, attitudes and sensibilities of Quebecers are different today than they were 20 years ago; a television network has to adapt to these realities and TVA has succeeded. Young or old, rich or poor, living in Montréal or in the regions, the people's #1 choice is TVA."

Jean-Marc Léger, *President and CEO, Léger Marketing*

publishing

TVA Publishing, Quebec's entertainment magazines leader, performed well in its first full year as part of TVA Group, despite a shrinking market and growing media diversity. During the year, TVA Publishing managed to improve its operating margin to 17% through a reduction in administrative expenses, tighter management of the number of copies printed and a substantial increase in advertising revenues.

TVA Publishing remained a leader in newsstand sales with 77% of the French-language magazine market in 2001, compared with 79% in 2000. Its overall market share in French-language magazines (newsstand sales and subscriptions) totaled 45% in 2001, compared with 48% in 2000 (Source: ABC, June 2001 and 2000).

TVA Publishing's four weekly magazines, which account for over 85% of revenues, reach over four million readers every week. Despite a slowdown in newsstand sales, the entertainment newsmagazine *7 Jours* remains by far the top seller in Quebec and recorded the largest increase in advertising sales in the group. *TV Hebdo,* in which TVA has a 50% interest, lost newsstand sales to the free TV guides offered by some television distributors, newspapers and on the Internet.

The four monthly publications have generally progressed as expected. Three of them are in the top five in newsstand sales and subscriptions. One, *Star inc.,* an international entertainment newsmagazine launched three years ago, has reached second place in newsstand sales among Quebec monthlies.

The Company intends to pursue its efforts in the coming years to make its magazines even more attractive to readers and advertisers, while continually adapting them to market trends.

1963

Huguette Proulx
Tout pour la femme

2001

France Beaudoin
Sonia Vachon
Deux filles le matin

1961

Réal Giguère
Gala Méritas

2001

Gilles Latulippe
Gala MetroStar

Overview

During fiscal 2001, TVA Group operated in an environment marked by significant change. Four major events occurred in succession during the year:

On October 23, 2000, Quebecor Media acquired Le Groupe Vidéotron ltée, the controlling shareholder of TVA Group, resulting in the creation of a major integrated media group. TVA's membership in this new group opens a host of new opportunities that are now more easily accessible.

In December 2000, the CRTC awarded TVA and its various partners five Category 1 licenses and five Category 2 licenses to operate digital television channels. The two English-language Category 1 specialty channels, *mentv* and *Mystery,* were launched on September 7, 2001.

In January and September 2001, major write-downs were announced in the Production and Distribution sector. Faced with difficult economic conditions in this sector, TVA International initially reduced its activities to focus exclusively on the distribution of audiovisual products in Canada and on the production of youth and animation programming. This repositioning resulted in a write-down of $71 million of the subsidiary's assets. Subsequently, faced with a tighter market in youth and animation programming, as well as stagnation in the distribution sector, a sale process was initiated. Although there was no transaction by the end of the fiscal year, the process forced the Company to recognize a significant gap between the book value of TVA International's assets and their net realizable value. Consequently, TVA International recorded an after-tax write-down of $123 million in the fourth quarter, representing for the Company the write-off of its investment in TVA International.

On May 31, 2001, Netgraphe completed the acquisition of the CANOE's assets by issuing 133.7 million shares to Quebecor Media. This consolidation thereby diluted TVA Group's indirect interest in Netgraphe from 29% to 11%.

Some of these events led to a reassessment of TVA's diversification strategy into sectors related to broadcasting, and today enable the Company to focus on what it does best: content distribution. From this position in content distribution, TVA will partner with its controlling shareholder, QMI, to achieve the convergence model and execute its interactive television projects. TVA's involvement and investments in new specialty digital channels are fully in line with this strategy.

Results

The following management's discussion and analysis of financial position and results of operations of TVA Group should be read in conjunction with the Company's audited consolidated financial statements.

In this section, TVA Group Inc.'s financial results have been segmented into four business sectors:

> BROADCASTING
TVA Sales and Marketing Inc.(100%)
JPL Production inc. and JPL Production II inc. (100%)
TVA Regional inc. (100%), which in turn holds
Global Television Quebec Network, L.P. (49%)
Télé Inter-Rives Ltée (45%)
Le Canal Nouvelles (100%)
Canal Évasion Inc. (10%)
Canal Indigo s.e.n.c. (20%)

> PRODUCTION AND DISTRIBUTION
TVA Acquisition Inc. (70%), which in turn holds:
TVA International Inc. and TVA International I Inc. (100%)

> PUBLISHING
TVA Publishing Inc. (100%), which in turn holds:
TVA Book Publishers Inc. (100%)
TVA Magazines Inc. (100%)
Mediastar Inc. (100%)
Trustmedia Inc. (50 %)

> MERCHANDISING
TVA Direct inc. (90%)
HSS Canada inc. (50%)

Consolidated statements of income

	Revenues		EBITDA*	
(in thousands of dollars)	**2001**	2000	**2001**	2000
Broadcasting	**$215,017**	$224,333	**$57,272**	$61,790
Production and Distribution	**74,601**	25,985	**3,453**	(4,334)
Publishing	**47,156**	29,400	**7,959**	4,353
Merchandising	**12,728**	13,176	**1,866**	1,004
Unallocated items	**(4,850)**	(3,606)	–	–
Total	**$344,652**	$289,288	**$70,550**	$62,813

* Operating income before depreciation, amortization, financing charges and other items

For the fiscal year ended August 26, 2001, *consolidated operating revenues* for TVA Group totaled $344,652,000, compared with $289,288,000 for the previous year, an increase of $55,364,000 or 19.1%. *Consolidated operating, selling and administrative expenses* totaled $274,102,000, compared with $226,475,000 in 2000, an increase of 21.0%. Therefore, *consolidated operating income before depreciation, amortization, financing charges and other items (EBITDA)* rose 12.3% to $70,550,000 in 2001, compared with $62,813,000 in 2000.

BROADCASTING

Operating revenues from the Broadcasting sector totaled $215,017,000 compared with $224,333,000 in 2000. The $9,316,000 difference is due largely to lower advertising sales for the TVA Network, as a result of a decline in overall television viewership and increased competition from specialty channels. Moreover, revenues from the LCN specialty channel, which represent 6.0% of broadcasting revenues, increased by 6.6% during fiscal 2001 to reach $12,871,000, reflecting an 11% increase in advertising revenues and a 4.4% increase in subscriber revenues.

Operating, selling and administrative expenses were $157,745,000, compared with $162,543,000. This decrease of nearly $5 million results from the restructuring and cost-cutting measures implemented during the first semester of the fiscal year. The operating margin was 26.6%, compared with 27.5% last year and EBITDA was $57,272,000, compared with $61,790,000 in 2000.

PRODUCTION AND DISTRIBUTION

Results for the Production and Distribution sector reflect the first full year of operations for TVA International following the acquisition of Motion International Inc. (Motion International), compared with three months in fiscal 2000.

Operating revenues from the Production and Distribution sector totaled $74,601,000, compared with $25,985,000 in 2000. In fiscal 2001, operating revenues comprised distribution activities at 51%, youth and animation programming at 10%, production of international fiction at 20% and other productions, such as concerts and documentaries, at 19%.

Operating, selling and administrative expenses totaled $71,148,000, compared with $30,319,000 in 2000. The restructuring and the cost-cutting program initiated at the beginning of the first quarter of 2001 resulted in an EBITDA of $3,453,000, compared with an operating loss of $4,334,000 in 2000.

PUBLISHING

Results for the Publishing sector reflect the first full year of operations for TVA Publishing, a company acquired under the name of Trustar Limited (Trustar) on January 17, 2000. Therefore, the results for fiscal 2001 are compared with a 7½-month period in fiscal 2000.

The Publishing sector generated *operating revenues* of $47,156,000, compared with $29,400,000 in 2000. In Quebec, TVA Publishing remains the leader in newsstand sales for French-language magazines, with a 77% market share, despite a decrease in the number of copies sold. Newsstand sales represent nearly 70% of its operating revenues, while advertising revenues contribute 16% and by subscriptions 10%.

Operating, selling and administrative expenses totaled $39,197,000, compared with $25,047,000 in 2000. Tighter management of the number of copies printed and a reduction in operating, selling and administrative expenses enabled TVA Publishing to increase its operating margin to 16.9% in 2001, compared with 14.8% in 2000. *EBITDA* was $7,959,000, compared with $4,353,000 in 2000.

MERCHANDISING

Operating revenues in the Merchandising sector, which includes home shopping and related products, were $12,728,000 in 2001, compared with $13,176,000 in 2000. This 3.4% decrease is mainly due to a change in programming that reduced the amount of airtime for the Boutique TVA show from 60 minutes to 30 minutes in some periods during the fiscal year. This decrease was partly offset by increased revenues from infomercials and related products.

Operating, selling and administrative expenses decreased 10.8% totaling $10,862,000 compared with $12,172,000 in 2000. As a result, the operating margin nearly doubled to 14.7% from 7.6%, reflecting the performance by the Club TVAchats channel and infomercials on the TVA Network. EBITDA for the Merchandising sector increased from $1,004,000 in 2000 to $1,866,000 in 2001.

On a consolidated basis, *depreciation of fixed assets* totaled $11,665,000, compared with $9,016,000 in 2000. This 29.4% increase is due to the completion of several investment projects in the third quarter of 2000 and the first quarter of 2001. The *amortization of licenses and deferred charges* was $2,525,000, compared with $2,398,000 in 2000.

Financing expenses totaled $9,498,000, compared with $4,434,000 in 2000. This increase of $5,064,000 is due to increased debt following the acquisition of Trustar in January 2000 and to the assumption of debt from Motion International, acquired in May 2000.

For fiscal 2001, *other items* totaling $183,949,000, are attributable to the write-down of assets and rationalization at TVA International ($180,199,000), as well as expenses related to the restructuring of TVA Group ($3,750,000). During the previous year, *other items* included a dilution gain of $9,867,000 from the transfer of TVA International shares to TVA Acquisition.

Income taxes were $18,810,000, compared with $21,884,000 for the previous year. This amount was calculated based on an income tax rate of 37.51% in 2001, compared with 38.14% in 2000.

Non-controlling interest of $50,034,000 essentially represents CDP Capital Communications' share (30%) in the TVA International loss, and compares with $1,107,000 in 2000.

Equity in income of companies subject to significant influence declined from a gain of $5,805,000 in 2000 to a loss of $11,623,000 in 2001. This loss mainly consists of the Company's indirect share (11%) in the Netgraphe loss ($7,754,000), a dilution loss from the issuance of Netgraphe shares as part of the CANOE assets acquisition ($5,434,000) in May 2001, as well as a dilution gain resulting from the issuance of Netgraphe shares for the acquisition of Progisia Informatique inc. ($1,086,000) in September 2000.

Amortization of goodwill rose from $1,653,000 to $3,876,000 following the acquisitions made in 2000.

For the fiscal year ended August 26, 2001, TVA Group recorded a *net loss* of $121,362,000 ($3.55 per share), compared with net income of $40,207,000 ($1.31 per share) for the previous year. Excluding exceptional items, net income for fiscal 2001 was $24,462,000 ($0.71 per share), compared with $23,554,000 ($0.77 per share) in 2000 (Non-recurring items include, among other things, the Company share in TVA International write-down of assets and rationalization, and the Company share of dilution gains (losses)). Per-share amounts are based on a weighted average of 34,214,809 shares for fiscal 2001, compared with 30,591,160 for the prior year.

Consolidated balance sheets

As at August 26, 2001, total assets were $405,770,000, compared with $582,989,000 as at August 27, 2000. This decrease of $177,219,000 is mainly attributable to the decrease in value of TVA International assets ($156,477,000), which translated into, among other things, a reduction of goodwill ($78,434,000), a decrease in investments in televisual products and movies ($63,513,000) and a decrease in accounts receivable ($8,708,000).

Total liabilities were $236,673,000 as at August 26, 2001, compared with $261,371,000 for the previous year, a decrease of $24,698,000. *Long-term debt* declined by over half to $53,875,000, from $112,451,000. This decrease of $58,576,000 is mainly explained by the fact that a portion of long-term debt ($30,309,000) was converted into a short-term bank loan, while another portion ($28,297,000) was repaid.

The Company has access to a revolving-term bank loan of a maximum of $90 million, which was put into place in 1997. The loan is payable in full on August 29, 2003. In this respect, the Company is current in its interest payments and is meeting the financial ratios contained in this agreement.

The debt-to-shareholder-equity ratio went from 1:3.9 to 1:4.1 as at August 26, 2001. As for the working-capital ratio, it went from 2.0:1 to 1.2:1 as at August 26, 2001.

Non-controlling interest declined from $39,577,000 to zero in 2001, following the write-down of TVA International assets.

As at August 26, 2001, *shareholders' equity* was $169,097,000, compared with $321,618,000 the previous year, a decrease reflecting mainly the net loss recorded in fiscal 2001.

Summary of consolidated statements of cash flows

(in thousands of dollars)	**2001**	2000
OPERATING ACTIVITIES		
Cash flows provided by current operations	**$ 16,362**	$ 38,417
Changes in non-cash items	**33,073**	(20,850)
	49,435	17,567
INVESTING ACTIVITIES		
Acquisition of fixed assets	**(7,786)**	(12,856)
Acquisition of investments	**(6,620)**	(21,656)
Business acquisition	**–**	(103,967)
Other items	**(11,374)**	(418)
	(25,780)	(138,897)
FINANCING ACTIVITIES		
Repayment of bank loans	**(37,601)**	(5,463)
Long-term indebtedness	**1,975**	41,406
Issue of Class B shares	**3,415**	99,163
Other items	**(1,934)**	(6,929)
	(30,277)	123,141
Net change in cash and cash equivalents	**(6,622)**	1,811
Cash and cash equivalents, end of year	**$ 4,368**	$ 10,990

In fiscal 2001, *cash flows provided by current operations* totaled $16,362,000 ($0.48 per share), compared with $38,417,000 ($1.26 per share) for the previous year.

The *change in non-cash items* of $33,073,000 is primarily the net result of lower *accounts receivable* ($17,518,000), an increase in accounts payable and accrued liabilities ($7,174,000), and an increase in *broadcasting rights* payable ($9,739,000).

Investing activities required withdrawals of $25,780,000 in fiscal 2001, compared with $138,897,000 in 2000, a difference of $113,117,000. Investing activities in 2001 consist mainly of the *acquisition of investments* ($6,620,000), namely an indirect investment in Netgraphe, *investments in televisual products and movies* ($9,825,000) and the *acquisition of fixed assets* ($7,786,000). In the previous fiscal year, investing activities consisted mainly of the acquisition of companies, Trustar ($17,413,000) and Motion International ($86,554,000), the acquisition of investments, including Netgraphe ($21,656,000), as well as the acquisition of fixed assets ($12,856,000).

Financing activities used withdrawals of $30,277,000 in 2001 and provided funds of $123,141,000 in 2000. In fiscal 2001, withdrawals were used for the repayment of *bank loans* ($37,601,000), *dividends paid* ($6,837,000), offset by the *issue of Class B shares* ($3,415,000). TVA Group maintained its policy of quarterly dividends, by paying dividends of $0.05 per Class A and Class B share in the four quarters of the fiscal year.

Risks and uncertainties

For its operating needs, the Company must maintain the licenses granted to it by the CRTC and comply with their conditions. Failure to do so could result in the revocation or non-renewal of these licenses. TVA is currently in full compliance with these requirements and intends to remain so. On July 5, 2001, the CRTC renewed the license for its main station, CFTM-TV, for an additional period of seven years, ending August 31, 2008.

Major technological developments in the past decade have heightened competition in the communications market. Viewers are increasingly attracted by a larger number of television channels, the video market and the Internet. In addition, advertising revenues are subject to fluctuations related to the economic environment, audience ratings, new sources of competition and, in the case of the Publishing sector, newsstand sales.

Broadcasting revenues for the TVA Network depend on the value of available airtime, which is determined to a large extent by audience ratings, which in turn depend on programming content. These revenues are seasonal; the first and third quarters (September to November and March to May) generated close to 75% of the operating profit income in the Broadcasting sector in fiscal 2001.

Outlook

In fiscal 2001, TVA Group undertook a major restructuring aimed at focusing on the Broadcasting and Publishing sectors, while remaining active in Merchandising. The Broadcasting sector will experience growth in the coming years through its new digital specialty channels. In September 2001, TVA Group launched in partnership two English-language Category 1 channels, *mentv* and *Mystery,* which are broadcast by distributors throughout Canada. In September 2002, TVA Group and its partners plan to launch its three other French-language Category 1 channels. With the launch of its five Category 1 licenses and the eventual launch of the five Category 2 channels it has been granted, TVA Group aims to become a major player in the Canadian specialty television channels market.

In conclusion, TVA Group expects to create synergies with its new majority shareholder, Quebecor Media, and develop its model of convergence in the area of new media. In parallel to the development of interactive television, TVA Group will continue to produce quality content, whether in the form of television programming or magazine articles. TVA Group's objective as a content supplier and major player in the media industry will remain the creation of value for all its shareholders in the medium and long term.

management's report

The consolidated financial statements of TVA Group Inc., as well as overall information contained in the Annual Report, are the responsibility of management and were approved by the Board of Directors. Management's responsibility includes the selection of appropriate accounting practices in accordance with generally accepted accounting principles, and the preparation of reasonable estimates. Financial data contained elsewhere in this report are consistent with the financial statements.

Management, in keeping with its responsibilities, maintains an internal control system, designed among other things to provide reasonable assurance that TVA's assets are properly safeguarded and that the accounting records form an appropriate basis for the preparation of reliable financial statements.

Every year, the Board of Directors appoints an Audit Committee. This Committee reviews the annual consolidated financial statements of the Company and recommends their adoption by the Board of Directors. The Committee also studies reports on the Company's accounting methods and policies and internal control systems. In the opinion of management, these financial statements incorporate, within reasonable limits, all important elements and data available when they were prepared.

Paul Buron

Paul Buron

Senior Vice-President and Chief Financial Officer

Montréal, October 4, 2001

auditors' report

To the Shareholders of TVA Group Inc.

We have audited the consolidated balance sheets of TVA Group Inc. as at August 26, 2001, and August 27, 2000, and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 26, 2001, and August 27, 2000, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles in Canada.

Raymond Chabot Grant Thornton

General Partnership
Chartered Accountants

Montréal October 4, 2001

consolidated statements of income For the years ended August 26, 2001, and August 27, 2000

(in thousands of dollars)	2001	2000
Operating revenues	$ 344,652	$289,288
Operating, selling and administrative expenses	274,102	226,475
Operating income before depreciation, amortization, financing charges and other items	70,550	62,813
Depreciation of fixed assets	11,665	9,016
Amortization of licences and deferred charges	2,525	2,398
Financing expenses	9,498	4,434
Other items (Note 5)	183,949	(9,867)
	207,637	5,981
Income (loss) before income taxes, non-controlling interest and equity in income of companies subject to significant influence	(137,087)	56,832
Income taxes (Note 6)	18,810	21,884
Non-controlling interest	(50,034)	(1,107)
Equity in income of companies subject to significant influence (Note 8)	11,623	(5,805)
Income (loss) before amortization of goodwill	(117,486)	41,860
Amortization of goodwill	3,876	1,653
Net income (net loss)	$(121,362)	$ 40,207
NET EARNINGS (LOSS) PER SHARE (in dollars)		
Income (loss) before amortization of goodwill	$ (3.43)	$ 1.37
Net income (net loss)	$ (3.55)	$ 1.31
DILUTED EARNINGS (LOSS) PER SHARE (in dollars)		
Income (loss) before amortization of goodwill	$ (3.43)	$ 1.33
Net income (net loss)	$ (3.55)	$ 1.28
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		
Basic	34,214,809	30,591,160
Diluted	34,863,476	31,968,439

The accompanying notes are an integral part of the consolidated financial statements.

consolidated statements of retained earnings For the years ended August 26, 2001 and August 27, 2000

(in thousands of dollars)	2001	2000
Balance, beginning of year	$ 175,342	$143,931
Adjustment to retained earnings' beginning balance (Note 2)	(27,737)	–
Adjusted beginning balance	147,605	143,931
Dividends paid	(6,837)	(6,064)
Net income (loss)	(121,362)	40,207
Expenses related to share issuance, net of income taxes of $1,693	–	(2,732)
Balance, end of year	$ 19,406	$175,342

The accompanying notes are an integral part of the consolidated financial statements.

consolidated balance sheets August 26, 2001, and August 27, 2000

(in thousands of dollars)	**2001**	2000
CURRENT ASSETS		
Cash and cash equivalents	**$ 4,368**	$ 10,990
Accounts receivable (Note 10)	**109,026**	131,575
Investments in televisual products and movies (Note 11)	**60,867**	67,207
Inventories and prepaid expenses	**5,830**	8,243
	180,091	218,015
INVESTMENTS (Note 12)	**27,323**	32,915
FIXED ASSETS (Note 13)	**76,287**	84,805
INVESTMENTS IN TELEVISUAL PRODUCTS AND MOVIES (Note 11)	**6,612**	51,473
LICENCES	**69,853**	72,242
GOODWILL	**35,212**	117,522
OTHER ASSETS	**10,392**	6,017
	$405,770	$582,989
CURRENT LIABILITIES		
Bank loans (Note 14)	**$ 35,068**	$ 14,063
Accounts payable and accrued liabilities (Note 15)	**80,843**	73,669
Broadcast rights payable	**29,674**	19,935
Long-term debt due within one year	**1,935**	1,676
	147,520	109,343
LONG-TERM DEBT (Note 16)	**53,875**	112,451
FUTURE INCOME TAX LIABILITY (Note 6)	**35,278**	–
NON-CONTROLLING INTEREST	**–**	39,577
	236,673	261,371
SHAREHOLDERS' EQUITY		
Capital stock (Note 17)	**149,691**	146,276
Retained earnings	**19,406**	175,342
	169,097	321,618
	$405,770	$582,989

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board

Michel Décary
Director

André Bérard
Director

consolidated statements of cash flows For the years ended August 26, 2001, and August 27, 2000

(in thousands of dollars)	2001	2000
OPERATING ACTIVITIES		
Net income (loss)	**$(121,362)**	$ 40,207
Non-cash items (Note 9)	**137,724**	(1,790)
Cash flows provided by current operations	**16,362**	38,417
Changes in non-cash items (Note 9)	**33,073**	(20,850)
Cash flows from operating activities	**49,435**	17,567
INVESTING ACTIVITIES		
Acquisition of investments	**(6,620)**	(21,656)
Investments in televisual products and movies	**(9,825)**	(1,072)
Acquisition of fixed assets	**(7,786)**	(12,856)
Business acquisitions (Note 4)	**–**	(103,967)
Other items	**(1,549)**	654
Cash flows from investing activities	**(25,780)**	(138,897)
FINANCING ACTIVITIES		
Repayment of bank loans	**(37,601)**	(5,463)
Long-term indebtedness	**1,975**	36,370
Repayment of long-term debt	**(1,686)**	(865)
Advance from a Company	**10,457**	–
Issue of class B shares	**3,415**	99,163
Dividends paid	**(6,837)**	(6,064)
Cash flows from financing activities	**(30,277)**	123,141
NET CHANGE IN CASH AND CASH EQUIVALENTS	**(6,622)**	1,811
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**10,990**	9,179
CASH AND CASH EQUIVALENTS, END OF YEAR	**$ 4,368**	$ 10,990
CASH FLOWS FROM CURRENT OPERATIONS PER SHARE (in dollars)		
Basic	**$ 0.48**	$ 1.26
Diluted	**$ 0.48**	$ 1.23

The accompanying notes are an integral part of the consolidated financial statements.

Note 1. Governing statutes and nature of operations

The Company, incorporated under Part IA of the Companies Act (Québec), is involved mainly in the broadcasting, the production and distribution of televisual products and movies, publishing of specialized magazines and marketing of related merchandise.

Note 2. Changes in accounting policies

A) INCOME TAXES During the year, the Company adopted retroactively the new recommendations of the Canadian Institute of Chartered Accountants (CICA) concerning income taxes, without restating prior years. According to these new recommendations, the Company uses the liability method to provide for future income tax assets and liabilities. Previously, the Company was using the deferral method. This change increased the future income tax liability and reduced the retained earnings' opening balance for $27,737,000.

B) EMPLOYEE FUTURE BENEFITS During the year, the Company adopted, on a prospective basis, the new recommendations issued by the CICA with respect to the accounting for pension and other types of employee future benefits. Under the new recommendations, the costs of postretirement benefits other than pensions are accrued. In the past, such costs were charged to income as paid. The new recommendations also require a change in the discount rate used to value pension benefit obligation and service costs from an estimated long-term rate to a market-based interest rate. Adoption of the new recommendations has had a negligible impact on the financial statements of the Company.

Note 3. Significant accounting policies

A) PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and all of its subsidiaries from the date of acquisition of control to the date of the balance sheet, except for TVA Acquisition Inc., whose accounts are included from the date of acquisition of control to its year-end date, July 31, 2001. The equity in the joint ventures is accounted for using the proportionate consolidation method.

Investments in companies subject to significant influence are accounted for using the equity method and all other investments are accounted for using the cost method.

B) USE OF ESTIMATES The preparation of financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities shown on the balance sheet and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses on the statement of income during the reporting period. Actual results could differ from those estimates.

C) FAIR VALUE OF SHORT-TERM FINANCIAL INSTRUMENTS The fair value of cash and cash equivalents, accounts receivable, bank loans, accounts payable and accrued liabilities, and broadcast rights payable is comparable to their carrying amount because of the short maturity periods.

D) CASH AND CASH EQUIVALENTS Cash and cash equivalents include cash and short term, highly liquid investments with a initial maturity of less than or equal to three (3) months.

Note 3. Significant accounting policies (cont'd)

E) TAX CREDITS AND GOVERNMENT AID The Company may take advantage of several government programs designed to support production and distribution of televisual products and movies in Canada. The financial aid for production is accounted for as revenue in compliance with the Company's accounting principle for the recognition of revenue from completed televisual products and movies. The financial aid for broadcast rights is applied against investments in televisual products and movies. Government aid for televisual products is used directly to reduce operating, selling and administrative expenses during the year.

F) INVENTORIES Inventories include televisual products and related merchandise available for sale. Inventories are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out method.

G) PROGRAMS PRODUCED AND PRODUCTIONS IN PROGRESS Programs produced and productions in progress relate to broadcast activities. Programs produced and productions in progress are accounted for at the lower of cost and net realizable value. Cost includes direct charges for goods and services and the share of labour and general expenses relating to each production. The cost of each program is charged to operating expenses when the program is broadcasted or when a loss can be estimated.

H) BROADCAST RIGHTS Broadcast rights are essentially contractual rights allowing limited or unlimited broadcast of televisual products or movies. These broadcast rights, along with the corresponding liability, are recorded at the time the licence contract comes into effect and the product is ready for broadcast.

These rights are amortized upon the broadcast of televisual products and movies, over the estimated number of screenings, using a depreciation method based on estimated potential revenues.

The value of broadcasting rights is reduced when a permanent impairment in value is recognized.

I) PRODUCTIONS AND DISTRIBUTION RIGHTS Productions and distribution rights refer to the production and distribution of televisual products and movies. Productions and distribution rights are valued at the lower of amortized cost and net realizable value. The cost includes production costs and costs attributable to editing and other activities that provide a future economic benefit. The net realizable value of productions and distribution rights represents the Company's share of future estimated revenues to be derived, net of future costs.

Productions and distribution rights are amortized according to the proportion of gross revenue earned to total forecasted gross revenue.

Estimates of revenues are examined periodically by management and revised as necessary based on management's assessment of current market conditions. The value of amortized costs is reduced to net realizable value, as necessary, based on this assessment.

The amortization of productions and distribution rights is included in operating, selling and administrative expenses.

Note 3. Significant accounting policies (cont'd)

J) FIXED ASSETS Fixed assets are recorded at cost.

The Company calculates depreciation using the following methods and rates:

	Rates	Methods
Buildings	2.5% to 4%	Straight-line
Equipment	6.6% to $33^{1}/_{3}$%	Straight-line and diminishing balance

K) DEFERRED CHARGES Deferred charges represent the pension plans accrued benefit asset and the start-up costs for the specialty channels. The deferred charges related to specialty channels will be amortized over five years from the commencement of commercial operations. The deferred charges are presented in the section Other assets.

L) LICENCES AND GOODWILL Licences represent the cost of acquiring rights to operate broadcasting stations. The Company amortizes its broadcasting licences based on the straight-line method over a 40-year period.

Goodwill is amortized on a straight-line basis over a 25-year period.

The Company periodically reviews the unamortized amount of its licences and goodwill to determine whether it will be able to recover them in the long-term, by comparing them to future undiscounted cash flows. The value of licences and goodwill is reduced when a permanent impairment in value is recognized. The Company recorded a permanent impairment in value of goodwill carrying amount, during the reporting period (Note 5).

M) PENSION PLANS AND OTHER RETIREMENT BENEFITS The Company has defined benefit and defined contribution pension plans for its employees. In addition, the Company has health, life and dental insurance plans for certain retired employees with respect of an old plan. The active employees of the Company no longer benefit from this type of protection. The difference between the employee benefit expense and employer contributions paid into the plans is recorded as an accrued benefit asset or liability.

The following accounting policies are applied for all defined benefit plans:

> The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and is charged to earnings as services are provided by the employees. The calculations take into account management's best estimate of expected pension plan investment performance, salary escalation, retirement ages of employees and expected health care costs.

> For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

> Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

> The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees.

The pension expense of defined contribution plans recorded in earnings represents the contributions required to be made by the Company in the period in exchange for employee services rendered during the period.

Note 3. Significant accounting policies (cont'd)

N) REVENUE RECOGNITION Revenues derived from the sale of advertising airtime are recognized once the broadcasting of the advertisement has occurred.

Revenues provided by the sale of distribution rights, shares in productions, theatrical exhibition and the broadcast of televisual products are recognized when the film shooting is complete, when disbursements must be made by the theatrical exhibitors or when a contract has been signed under which the distribution rights are irrevocably transferred to the licencee or the share to an investor and when there is reasonable certainty that the revenue will be recovered. In the case of a televisual product, the revenues are recognized according to the percentage of completion. Under this method, production income and profits are recognized proportionally to the percentage of completion of work. The non-cash portion of these revenues is presented under the productions in progress heading.

Revenues from the sale of magazines in newsstands are recognized at the time they are displayed in newsstands.

The funds received or receivable that have not been accounted for in revenues are recorded in deferred revenues.

O) FOREIGN CURRENCY TRANSLATION Monetary assets and liabilities in foreign currency are translated at exchange rates in effect at the balance sheet date. Other assets and liabilities are translated at exchange rates in effect at transaction dates. Revenues and expenses in foreign currency are translated at the average rate in effect during the year, with the exception of depreciation and amortization, which are translated at the historical rate. Gains and losses are included in the income for the year.

P) INCOME TAXES The Company uses the liability method of accounting for income taxes. According to this method, future income tax assets and liabilities are determined by temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, computed on rates and provisions of enacted or substantially enacted tax law, at the date of the financial statements for the years in which temporary differences should be reduced.

Q) BARTER TRANSACTIONS In the normal course of its business, the Company broadcasts advertising spots in exchange for goods and services. The revenues thus earned are recorded on the basis of the fair market value of the goods and services obtained.

R) AMOUNTS PER SHARE The amounts per share are determined according to the weighted average number of shares outstanding during the year.

S) STOCK OPTIONS The Company grants stock options under stock option plans for Class B shares for the Company's management. No expenditure is accounted for at the time the options are granted. The consideration paid at the time the options are exercised is credited to capital stock.

Note 4. Business acquisitions

A) TRUSTAR LIMITED During the previous year, the Company acquired all the shares of Trustar Limited, a company in the publishing business, in exchange for $43,381,000 including transaction fees, of which $25,000,000 was paid cash and $18,381,000 in Class B shares from the Company's treasury. This acquisition has been recorded using the purchase method. The operating income of Trustar Limited was included in the Company's consolidated statement of income as of January 17, 2000.

Note 4. Business acquisitions (cont'd)

The allocation of the acquisition price is detailed as follows:

Acquisition price	$ 43,381
Cash and cash equivalents	7,587
Current assets	4,891
Long-term assets	8,402
Current liabilities	(12,712)
Long-term liabilities	(548)
Excess of fair value over acquired net assets	7,620
Goodwill	$ 35,761

B) MOTION INTERNATIONAL INC. During the previous year, the Company acquired through a subsidiary, TVA Acquisition Inc., all the outstanding shares of Motion International Inc. (now TVA International Inc.), a company involved in producing and distributing televisual products and movies, in exchange for a total of $137,104,000 including transaction fees. Accordingly, the Company disposed of its wholly-owned subsidiary, TVA International Inc. (now TVA International I Inc.) and invested $86,554,000 in exchange for shares of TVA Acquisition Inc., amounting to 70% of this company's outstanding shares. Following the disposal of TVA International Inc., the Company realized a dilution gain of $9,867,000.

Moreover, a non-controlling shareholder provided assets valued at $50,550,000 in exchange for shares of TVA Acquisition Inc., representing 30% of this company's outstanding shares. This acquisition was accounted for using the purchase method. The operating income of Motion International Inc. has been included in the Company's consolidated statement of income since May 12, 2000.

The allocation of the acquisition price is detailed as follows:

Acquisition price	$137,104
Current assets	107,679
Long-term assets	71,620
Current liabilities	(34,679)
Long-term liabilities	(77,169)
Excess of fair value over acquired net asset	67,451
Goodwill	$ 69,653

Note 5. Other items

TVA Acquisition Inc, a 70% subsidiary of the Company, owns 100% of TVA International Inc and 100% of TVA International I Inc, and is involved in the distribution and the international production sectors. Following a repositioning in these sectors, TVA Acquisition Inc. recognized an impairment in the value of assets including restructuring fees for an amount of $177,699,000 before income taxes, to better reflect their economic value. Also, TVA International Inc. has retained the services of an investment bank in order to examine all of its options, including a process to sell the subsidiary.

Also, the Company accounted for $3,750,000 in severance pay for the broadcasting, merchandising and publishing sectors and other fees related to TVA Acquisition Inc. for $2;500,000.

Note 5. Other items (cont'd)

The result for the Company is detailed as follows:

Impairment in value of the following assets:	
Accounts receivable	$ 8,708
Inventories and prepaid expenses	699
Productions in progress	8,827
Productions and distribution rights	54,686
Stock investment	589
Fixed assets	4,504
Goodwill	78,434
Severance pay	10,649
Other fees	16,853
	$183,949

Other fees include notably a lease termination provision and a non-renewal agreement penalty.

Last year, the Company realized a dilution gain of $9,867,000 following the disposal of TVA International Inc. (Note 4 B).

Note 6. Income taxes

The following disclosures for 2001 reflect the new recommendations of the CICA for income taxes (Note 2). The terminology used to describe comparative figures is consistent with the terminology used to describe current year amounts calculated using the liability method of tax allocation.

A reconciliation of income taxes at Canadian statutory rates with the reported income taxes is as follows:

	2001	2000
	Liability method	Deferral method
Income taxes according to the combined statutory income tax rate of 37.51% (38.14% in 2000)	$(52,875)	$ 21,045
Non-deductible expenses	30,822	1,608
Tax losses not provided for	36,016	
Future income taxes write-off	8,127	
Reduction in statutory tax rate	(3,687)	-
Non taxable portion of dilution gain	–	(1,507)
Other	407	738
Total income tax expense	$ 18,810	$ 21,884

Significant components of the provision for income tax are as follows:

Current income taxes	$ 17,230	$ 19,539
Change in temporary differences	5,267	2,345
Tax rate changes	(3,687)	–
Income tax in accordance with the effective tax rate	$ 18,810	$ 21,884

Note 6. Income taxes (cont'd)

The tax rate of temporary differences which gave rise to future tax liabilities and assets are as follows:

	2001
Surplus in accounting and tax basis for depreciation and amortization	$ (3,226)
Licences	(21,437)
Other	(2,175)
TOTAL FUTURE INCOME TAXES	$(26,838)
FUTURE INCOME TAXES ARE COMPRISED OF:	
Future income tax asset–current portion	$ 3,677
Future income tax asset–long-term portion	4,763
Future income tax liability–long-term	(35,278)
TOTAL FUTURE INCOME TAXES	$(26,838)

The current portion of future income tax assets is presented with Accounts receivable (Note 10) while the long term portion of the future income tax asset is presented with other assets. Some subsidiaries of the Company have at their disposal tax losses and temporary differences for a total amount of $80,000,000, that expire mainly until 2008, for which no tax benefits has been recognized.

Note 7. Joint ventures

The share of operations in the joint ventures included in the Company's consolidated financial statements is detailed as follows:

	2001	2000
CONSOLIDATED STATEMENTS OF INCOME		
Operating revenues	$10,531	$ 9,639
Operating, selling and administrative expenses	9,090	7,943
Operating income before the following items	1,441	1,696
Depreciation and amortization	125	94
Financing expenses	(21)	68
Income taxes	432	555
Net earnings	$ 905	$ 979
CONSOLIDATED BALANCE SHEETS		
Current assets	$ 2,257	$ 2,401
Current liabilities	$ 2,400	$ 2,567
CONSOLIDATED STATEMENTS OF CASH FLOWS		
Cash flows from operating activities	$ 760	$ 730
Cash flows from investing activities	$ (2)	$ (23)

Note 8. Equity in income of companies subject to significant influence

The equity in income of companies subject to significant influence is detailed as follows:

	2001	2000
Equity in income of companies subject to significant influence	$ 7,275	$ 3,966
Share of dilution (gain) loss of companies subject to significant influence	4,348	(9,771)
	$11,623	$(5,805)

The current year dilution loss arises mainly from the merger transaction of Netgraphe Inc. and CANOE network.

The dilution gain of companies subject to significant influence of the previous year arises mainly from the sale of InfiniT inc. (now 9085-3011 Québec inc.) to Netgraphe Inc. at the time of the reverse takeover of this company by InfiniT inc.

Note 9. Information on the consolidated statements of cash flows

	2001	2000
NON-CASH ITEMS		
Equity in income of companies subject to significant influence	$ 11,623	$ (5,805)
Depreciation and amortization	18,066	13,067
Future income taxes	1,580	2,345
Non-controlling interest	(50,034)	(1,107)
Dilution gain on an investment in a subsidiary	–	(9,867)
Impairment in value of assets	156,447	–
Other items	42	(423)
	$137,724	$ (1,790)
CHANGES IN NON-CASH ITEMS		
DECREASE (INCREASE) IN ASSETS		
Accounts receivable	$ 17,518	$ 16,818
Investments in televisual products and movies	(2,487)	(17,323)
Inventories and prepaid expenses	1,714	(1,235)
INCREASE (DECREASE) IN LIABILITIES		
Accounts payable and accrued liabilities	7,174	(19,393)
Broadcast rights payable	9,739	283
Future income tax assets and liabilities	(585)	–
	$ 33,073	$(20,850)
Interest paid	$ 8,258	$ 5,212
Income taxes paid	$ 23,692	$ 32,880

Note 10. Accounts receivable

	2001	2000
Trade accounts	$ 76,928	$ 86,641
Tax credits receivable	20,209	44,571
Current income tax assets	8,212	363
Future income tax assets	3,677	–
	$109,026	$131,575

Note 11. Investments in televisual products and movies

	2001	2000
Programs produced and in progress	$ 6,647	$ 7,450
Productions in progress	5,145	19,498
Broadcast rights	49,075	40,259
Productions and distribution rights	6,612	51,473
	67,479	118,680
Less: current portion	60,867	67,207
Long-term portion	$ 6,612	$ 51,473

Note 12. Investments

	2001	2000
Companies subject to significant influence		
Télé Inter-Rives Ltée, 45% interest	$ 4,051	$ 3,701
9085-3011 Québec inc. (a)	8,207	13,659
Other	(124)	(250)
	12,134	17,110
Other investments, at cost		
Term loan (b)	4,193	4,538
Note receivable from 9085-3011 Québec inc. (a)	8,500	8,500
Portfolio investments	2,496	2,767
	$27,323	$32,915

(a) 9085-3011 Québec inc. is a company 50% owned (45% in 2000) by TVA Group Inc. and 50% owned by companies under common control. 9085-3011 Québec inc. has a 22.4% interest (59.2% in 2000) in Netgraphe Inc. The note receivable bears interest at prime rate plus 4% and is payable on demand.

(b) The term loan of $4,193,000 bears interest at the rate of 8% since August 1, 2001 (6% before that date) and matures on August 1, 2007.

The fair value of other investments are comparable to their carrying value.

Note 13. Fixed assets

			2001
	Cost	Accumulated depreciation	Net
Land	$ 3,235	$ –	$ 3,235
Buildings	62,891	33,520	29,371
Equipment	140,185	96,504	43,681
	$206,311	$130,024	$76,287

			2000
	Cost	Accumulated depreciation	Net
Land	$ 3,650	$ –	$ 3,650
Buildings	62,487	31,091	31,396
Equipment	134,826	85,067	49,759
	$200,963	$116,158	$84,805

Accumulated depreciation includes an amount of $2,967,000 to provide for net realizable value of a subsidiary's fixed assets. The buildings include property held for resale and certain fixed assets for an amount of $1,335,000 including an impairment provision of $1,537,000.

Note 14. Bank indebtedness

	2001	2000
Demand bank loan (a)	$30,309	$ –
Demand bank loan (b)	2,431	2,444
Bank term loans (c)	2,328	–
Other bank loans (d)	–	11,619
	$35,068	$14,063

(a) DEMAND BANK LOAN TVA International Inc. changed its credit facility, which is now consisting of a demand bank loan of a maximum of $37,500,000 bearing interest at varying rates (8.5% as at July 31, 2001; 8.25% as at July 31, 2000). The loans can be Canadian dollar advances based on the prime rate or American dollar advances based on the prime rate.

The bank loan is secured by a hypothec on the universality of movable and immovable, tangible and intangible, current and future property of TVA International Inc. other than those excluded from the agreement.

As at July 31, 2000, TVA International Inc. had reached a credit agreement consisting of a revolving-term bank loan (Note 16) of a maximum of $75,000,000 bearing interest at varying rates plus a variable margin depending on the ratio of total debt to income before interest, taxes, depreciation and amortization (EBITDA) (rate of 8.25% as at July 31, 2000). The loan was payable in whole in 2002 subject to a right of extension, which could have been exercised before November 30, 2001. This right made it possible to postpone the loan's expiry date by one year with the agreement of the Company and the banking group.

Under the terms of the credit agreement, the Company's subsdiary is subject to certain covenants, including maintaining certain financial ratios. Moreover, the amount of the loan is limited to the realizable amount of the library, titles, or production budget of a film or television series.

The Company acts as a guarantor of its subsidiary for $10,000,000.

As at July 31, 2001, TVA International Inc. issued letters of guarantee for a total of $1,000,000 ($2,019,000 in 2000).

(b) DEMAND BANK LOAN This demand bank loan bears interest at the prime rate plus 0.75% (rate of 6.75% as at July 31, 2001; 8.25% as at July 31, 2000) and is secured by a movable hypothec on the universality of tangible and intangible, current and future property of a subsidiary of TVA Acquisition Inc. specifically excluded from the above-mentioned (see Note 14(a)).

(c) BANK TERM LOANS Subsidiaries of TVA Acquisition Inc. signed different term loans to finance foreign accounts receivable. These loans bear interest at rates based on EURIBOR (6.95% as at July 31, 2001) and are maturing no later than September 14, 2002. These loans can be American dollars, Canadian dollars, French francs or Euro advances. These loans are secured by a collateral security on tangible and intangible, current and future items of productions.

(d) OTHER BANK LOANS As at July 31, 2000, TVA Acquisition Inc. had reached a bank term loan of $9,000,000 bearing interest at prime rate plus 2% (rate of 9.5% as at July 31, 2000) and matured on September 30, 2000.

The Company acted as a guarantor of its subsidiary for $9,000,000.

Note 14. Bank indebtedness (cont'd)

Also, TVA Acquisition Inc. had signed various demand notes payable secured by the SODEC pursuant to the refundable tax credit interim financial program for Quebec film and television production. These notes were bearing interest at the prime rate.

As at August 26, 2001, some subsidiaries of the Company and a joint venture have $5,000,000 lines of credit that are not utilized. These lines of credit bear interest at prime rate and are renegociable each year.

These lines of credit are secured by a movable hypothec without depossession on accounts receivable of some subsidiaries of the Company and a joint venture of an approximate amount of $3,162,000 ($3,297,000 in 2000).

Note 15. Accounts payable and accrued liabilities

	2001	2000
Accounts payable and accrued liabilities	**$75,475**	$69,220
Current income tax liabilities	**1,741**	–
Deferred revenues	**3,627**	4,449
	$80,843	$73,669

Note 16. Long-term debt

	2001	2000
Revolving-term bank loan (a)	**$53,875**	$51,900
Revolving-term bank loan (Note 14 (a))	–	58,606
Other loans, payable until 2006, bearing interest at varying rates from 0% to 8.25%	**1,935**	3,621
	55,810	114,127
Instalments due within one year	**1,935**	1,676
	$53,875	$112,451

(a) The credit agreement consists of a revolving-term bank loan of a maximum of $90,000,000, bearing interest at the prime rate of a Canadian chartered bank plus a variable margin depending on the total ratio of debt to cash flow. As at August 26, 2001 the borrowed amount includes $49,825,000 of banking acceptances bearing 4.14% interest rate and $4,050,000 of lines of credit advances bearing 6% interest rate (7.5% in 2000). The loan is payable in full on August 29, 2003.

The revolving-term bank loan is secured by a hypothec for $120,000,000 on the universality of the Company's movable and immovable, tangible and intangible, current and future property.

Under the credit agreement, the Company is subject to certain covenants, including maintaining certain financial ratios. As at August 26, 2001, the Company is in compliance with these covenants. In addition, the Company is limited with regards to amounts for the acquisition of fixed assets, investments, dividends and other payments to shareholders.

The fair value of the bank loan is equivalent to the book value as at August 26, 2001 and August 27, 2000, because it bears variable-rate interest.

The instalments on long-term debt for the coming years stand at $1,935,000 in 2002 and at $53,875,000 in 2003.

Note 17. Capital stock

AUTHORIZED An unlimited number of preferred shares, non-voting, non-participating, with a par value of $10 each, issuable in series.

An unlimited number of Class A common shares, participating, voting, without par value.

An unlimited number of Class B shares, participating, non-voting, without par value.

	2001	2000
ISSUED AND FULLY PAID		
4,320,000 Class A common shares	$ 72	$ 72
30,108,997 Class B shares (29,554,822 in 2000)	149,619	146,204
	$149,691	$146,276

During the year, the Company issued 554,175 Class B shares, (282,125 shares in 2000) following the exercising of share purchase options. During the previous year, the Company issued 72,468 Class B shares pursuant to the stock option plan for the Company's managers and employees for a cash consideration of $1,703,000. No shares have been issued pursuant to this plan during the current year.

During the year ended August 27, 2000, the Company issued 920,000 Class B shares in connection with the acquisition of Trustar Limited for a total of $18,381,000 (see Note 4). The Company also issued 3,850,000 Class B shares for a total consideration of $100,100,000 in cash.

EXECUTIVE CLASS B STOCK OPTION PLAN On October 18, 1999, the Company replaced the Class B stock option plan introduced in 1990 (hereafter the 1990 plan), except for options already granted but not exercised. For these options, the terms of the 1990 plan still apply. The 1990 plan was created for certain designated executives. Under the plan, the subscription price for a Class B share covered by an option is equal to the average closing market price of the share during the last five days preceding the issue of the option. No option may be exercised before the second anniversary of the date the options were granted; as of that date, the options may be exercised on the basis of 25% of the shares involved annually ("conventional options"). The term of the option is 10 years. During the year, the Company granted no conventional options under this plan.

Under the terms of the plan, introduced for executives of the Company and its subsidiaries, the granting, terms and conditions of options granted are determined by the Company's corporate governance and human resources committee. However, the subscription price of each Class B share under an option cannot be less than the closing price on the stock market the day before the option is granted. Moreover, the duration of the options cannot exceed 10 years. A maximum of 1,400,000 shares will be reserved for the purposes of the plan. During the year, the Company did not grant any Class B stock options (802,500 class B stock options in 2000) whose exercise depends on the performance of the Class B share price on the stock market over periods lasting until 2010 ("performance options"). In addition, the Company granted 110,000 stock options (275,500 stock options in 2000) exercisable on the basis of 25% of the shares involved annually ("conventional options"), as of the second anniversary of their granting date.

Note 17. Capital stock (cont'd)

The following table provides a summary of the situation as at August 26, 2001 and August, 27, 2000 of the conventional options and any changes that occurred during the years then ended:

	2001		2000	
CONVENTIONAL OPTIONS	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	**900,725**	**$11.34**	907,350	$ 6.30
Granted	**110,000**	**14.40**	275,500	21.56
Exercised	**(554,175)**	**6.16**	(282,125)	5.12
Expired	**(78,500)**	**$18.51**	–	$ –
Outstanding, end of year	**378,050**	**$17.86**	900,725	$11.34
Exercisable, end of year	**278,050**	**$19.24**	276,475	$ 5.90

	Options outstanding			Options exercisable	
Exercise price range	Number of options outstanding as at August 26, 2001	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable as at August 26, 2001	Weighted average exercise price
$3.43 to $5.14	1,800	3.98	$ 3.58	1,800	$ 3.58
$5.15 to $7.72	8,000	5.75	$ 6.88	8,000	$ 6.88
$7.73 to $11.59	10,000	6.29	$10.87	10,000	$10.87
$11.60 to $17.40	151,250	8.45	$13.84	51,250	$13.45
$17.41 to $25.50	207,000	8.62	$21.69	207,000	$21.69
	378,050			278,050	

The following table provides a summary of the situation as at August 26, 2001 and August 27, 2000 of performance options and any changes that occurred during the year then ended:

	2001		2000	
PERFORMANCE OPTIONS	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	**802,500**	**$19.32**	–	–
Granted	–	–	802,500	$19.32
Exercised	–	–	–	–
Expired	**(712,500)**	**19.00**	–	–
Outstanding, end of year	**90,000**	**21.81**	802,500	$19.32
Exercisable, end of year	**90,000**	**$21.81**	–	–

	Options outstanding			Options exercisable	
Exercise price range	Number of options outstanding as at August 26, 2001	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable as at August 26, 2001	Weighted average exercise price
$18.85 to $25.50	90,000	4.56	$21.81	90,000	$21.81

Moreover, when the conditions are achieved, a maximum of 200,000 additional Class B stock options will be granted on different dates until 2010 at exercise prices set at the time of granting.

CLASS B STOCK OPTION PLAN FOR EXECUTIVES AND EMPLOYEES In 1998, the Company introduced stock option plans relating to 750,000 Class B shares for its executives and employees. The plans provide that participants can acquire shares under certain terms related to their salary. The shares can be acquired at a price

Note 17. Capital stock (cont'd)

equal to 90% of the average closing market prices. The plans also provide financing terms at no interest. During the year, no Class B shares (72,468 in 2000) were issued under the plans (total of $1,703,000 in 2000). The remaining balance which may be granted is 562,396 shares as at August 26, 2001 (562,396 in 2000).

DEFERRED SHARE UNIT PLAN During the year ended August 27, 2000, the Company introduced a long-term profit sharing plan for certain members of senior management. The deferred share units are redeemable (in cash or in shares or in a combination of cash and shares) only upon discontinuation of the participant's job. Under this plan, the maximum number of shares which can be issued is 25,000. During the year, the Company did not issue any units (4,500 units in 2000).

Note 18. Tax credits and government aid

Included in income are amounts for assistance totalling $9,242,000 ($4,839,000 in 2000), which represent $7,851,000 ($4,016,000 in 2000) in the form of refundable tax credits and $1,391,000 ($823,000 in 2000) for production financing.

Government assistance in the amount of $5,293,000 ($7,644,000 in 2000) was applied against production expenses, being $3,574,000 ($4,362,000 in 2000) in refundable tax credits and $1,719,000 ($3,282,000 in 2000) for production financing.

Note 19. Pension plans and other retirement benefits

Information about the Company's defined benefit plans, in aggregate, is as follows:

		2001
	Pension plans	Other plans
ACCRUED BENEFIT OBLIGATION		
Balance at beginning of year	$ 94,676	$1,089
Current service cost	1,921	–
Interest cost	6,988	55
Benefits paid	(5,562)	(71)
Past service costs	6,008	–
Actuarial gains	(2,472)	–
Balance at end of year	$101,559	$1,073
PLAN ASSETS		
Balance at beginning of year	$110,215	$ –
Actual return on plan assets	4,435	–
Employer contributions	1,051	–
Employees' contributions	729	–
Benefits paid	(5,562)	–
Balance at end of year	110,868	–
FUNDED STATUS–PLAN SURPLUS (DEFICIT)	9,309	(1,073)
Unamortized past service costs	5,654	–
Unamortized net actuarial loss	1,217	–
Unamortized transitional obligation (asset)	(7,823)	909
ACCRUED BENEFIT ASSET (LIABILITY)	8,357	(164)
Valuation allowance	(4,387)	–
ACCRUED BENEFIT ASSET (LIABILITY), NET OF VALUATION ALLOWANCE	$ 3,970	$ (164)

Note 19. Pension plans and other retirement benefits (cont'd)

The components of the Company's benefit plan expense are as follows:

	2001	
	Pension plans	Other plans
Current service cost	$1,192	$ –
Interest cost	6,988	55
Expected return on plan assets	(8,124)	–
Amortization of past service costs	354	–
Amortization of transitional obligation (asset)	(502)	180
Change in the valuation allowance	1,180	–
Benefit plan expense	$1,088	$235

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations at the end of year 2001 are as follows:

	2001
Discount rate	7.0%
Expected long-term rate of return on plan assets	7.5%
Rate of compensation increase	4.0%

For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5 percent over a ten year period and remain at that level thereafter.

For 2001, the total expense for the Company's defined contribution pension plans is $2,462,000.

Note 20. Related party transactions

During the year, the Company concluded the following transactions with related companies in the normal course of its activities. Amounts of transactions with related companies are determined on the basis of contracts signed between the parties and in which the value of services rendered was determined at the exchange amount.

The Company paid management fees to the parent company in the amount of $1,100,000 ($1,205,000 in 2000).

The Company has a policy of providing airtime, selling programs and offering technical production and postproduction services to companies under common control at market value. The Company sold airtime and leased production and postproduction technical services amounting to $10,192,000 ($6,220,000 in 2000) to companies under common control.

The Company received information systems, communications, access rights and printing services for a total amount of $19,966,000 ($3,904,000 in 2000) from companies under common control.

Note 21. Commitments

The Company is committed under operating leases, mainly for services and office space, which call for total payments of $43,245,000 until 2011. The minimum payments for the coming years are as follows:

2001	$ 9,481
2002	$ 6,346
2003	$ 6,205
2004	$ 4,503
2005	$ 3,994
2006 and following:	$12,716

Note 22. Contingencies

In the normal course of its operations, various lawsuits and claims are pending against the Company. It is the opinion of management that final determination of these claims will not have a material adverse effect on the financial position or results of the Corporation.

During the previous year, TVA International Inc. granted a credit facility to a private company in the amount of US$1,000,000, bearing interest at a rate of 12%, maturing on April 5, 2001. No advances have been made.

Note 23. Financial instruments

CREDIT RISK CONCENTRATION Tax credits receivable from the federal and provincial governments represent 18.8% of accounts receivable. The balance of accounts receivable is divided among various clients, principally advertising agencies and distributors. No amount receivable from one client is more than 10% of accounts receivable.

Note 24. Segmented information

The Company's operations are composed of the following sectors:

> Broadcasting, including the activities of the TVA Network, specialized channels and the production firm, JPL Production inc.;

> Production and distribution, including the activities of TVA Acquisition Inc., a company involved in producing and distributing televisual products and movies;

> Publishing, including the activities of TVA Publishing Inc., a French-language magazine publisher specializing in arts and entertainment, television and the Internet;

> Merchandising, including activities of television shopping through the HSS Canada inc. and the Club TVAchats channel, as well as through the merchandise of derivative products through TVA Direct inc.

The unallocated items comprise the equity in income in Netgraphe Inc., dilution gains (losses) and the elimination of intersegment transactions.

The reportable segments determined by management are strategic operating units that offer various goods and services. They are managed separately, because, among other reasons, each segment requires a different marketing strategy.

Note 24. Segmented information (cont'd)

The segments' accounting policies are the same as those followed by the Company as a whole (see Note 3).

The following tables include information on the consolidated statements of income, as well as information on assets:

2001	Broadcasting	Production and distribution	Publishing	Merchan-dising	Unallocated items	Total
Operating revenues	**$215,017**	**$ 74,601**	**$47,156**	**$12,728**	**$ (4,850)**	**$ 344,652**
Operating income before the following items	**57,272**	**3,453**	**7,959**	**1,866**	**–**	**70,550**
Depreciation and amortization	**12,276**	**3,676**	**1,940**	**174**	**–**	**18,066**
Financing expenses	**1,991**	**7,739**	**(190)**	**(42)**	**–**	**9,498**
Other items	**3,500**	**180,199**	**250**	**–**	**–**	**183,949**
Income taxes	**7,260**	**8,555**	**2,346**	**649**	**–**	**18,810**
Equity in income of companies suject to significant influence	**(479)**	**–**	**–**	**–**	**7,754**	**7,275**
Share of dilution loss of a company subject to significant interest	**–**	**–**	**–**	**–**	**4,348**	**4,348**
Non-controlling interest	**–**	**(50,081)**	**–**	**47**	**–**	**(50,034)**
Net income (loss)	**$ 32,724**	**$(146,635)**	**$ 3,613**	**$ 1,038**	**$(12,102)**	**$(121,362)**
Acquisition of fixed assets	**$ 6,878**	**$ 714**	**$ 194**	**$ –**	**$ –**	**$ 7,786**
Total assets	**$341,524**	**$ 63,518**	**$50,394**	**$ 4,374**	**$ 8,207**	**$ 404,499**

2000	Broadcasting	Production and distribution	Publishing	Merchan-dising	Unallocated items	Total
Operating revenues	$224,333	$ 25,985	$29,400	$13,176	$ (3,606)	$ 289,288
Operating income (loss) before the following items	61,790	(4,334)	4,353	1,004	–	62,813
Depreciation and amortization	10,389	1,225	1,370	83	–	13,067
Financing expenses	1,911	2,571	(107)	59	–	4,434
Other items	–	–	–	–	(9,867)	(9,867)
Income taxes	19,983	(2,732)	1,318	330	2,985	21,884
Equity in income of companies subject to significant influence	(246)	–	–	–	4,212	3,966
Share of dilution gain of a company subject to significant interest	–	–	–	–	(9,771)	(9,771)
Non-controlling interest	–	(1,060)	–	(47)	–	(1,107)
Net income (loss)	$ 29,753	$ (4,338)	$ 1,772	$ 579	$ 12,441	$ 40,207
Acquisition of fixed assets	$ 12,130	623	84	19	–	12,856
Total assets	$255,450	$ 252,327	$59,749	$ 4,224	$ 13,659	$ 582,409

Note 25. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

quaterly financial information

Income summary 2001

QUARTERLY CONSOLIDATED INCOME*

(in thousands of dollars, except for amounts pertaining to shares)	First quarter	Second quarter	Third quarter	Fourth quarter	2001 Total
Operating revenues	$106,853	$76,093	$93,876	$67,830	$344,652
Operating, income before depreciation, amortization, financing charges and other items	22,714	11,011	26,114	10,711	70,550
Net income (loss)	(36,381)	2,306	10,603	(97,890)	(121,362)
Net earnings (loss) per share	(1,07)	0,07	0,31	(2,84)	(3,55)
Cash flow provided by current operations	11,781	5,512	15,380	(16,311)	16,362
Cash flow from current operations per share	$ 0.35	$ 0.16	$ 0.45	$ (0.48)	$ 0.48
Weighted average number of shares outstanding	33,892,400	34,135,272	34,401,692	34,422,404	34,214,809
Stock price at the Toronto Stock Exchange					
High	$ 24.15	$ 17.00	$ 15.75	$ 17.00	
Low	15.50	12.05	12.50	12.90	
Close	$ 16.50	$ 14.00	$ 15.50	$ 13.30	

* Retail seasonal variations influence TVA's quarterly financial results, as demonstrated by the above figures.

Income summary 2000

QUARTERLY CONSOLIDATED INCOME*

(in thousands of dollars, except for amounts pertaining to shares)	First quarter	Second quarter	Third quarter	Fourth quarter	2000 Total
Operating revenues	$71,604	$59,331	$81,653	$76,700	$289,288
Operating, income before depreciation, amortization, financing charges and other items	24,401	9,205	23,504	5,703	62,813
Net income (loss)	12,276	10,732	17,700	(501)	40,207
Net earnings (loss) per share	0.43	0.37	0.60	(0.02)	1.31
Cash flow provided by current operations	15,297	6,142	14,208	2,770	38,417
Cash flow from current operations per share	$ 0.53	$ 0.21	$ 0.48	$ 0.09	$ 1.26
Weighted average number of shares outstanding	28,750,404	28,973,673	29,312,495	30,591,160	30,591,160
Stock price at the Toronto Stock Exchange					
High	$ 19.50	$ 34.00	$ 37.00	$ 28.50	
Low	16.00	18.00	24.15	20.05	
Close	$ 17.70	$ 32.90	$ 25.20	$ 23.50	

* Retail seasonal variations influence TVA's quarterly financial results, as demonstrated by the above figures.

six-year review

Restated results

(in thousands of dollars)	**2001**	2000	1999	1998
Operating revenues	**$ 344,652**	$289,288	$239,051	$212,784
Operating, selling and administrative expenses	**274,102**	226,475	175,249	157,292
Operating income before depreciation, amortization, financing expenses and other items	**70,550**	62,813	63,802	55,492
Depreciation and amortization	**14,190**	11,414	11,341	10,224
Financing expenses	**9,498**	4,434	1,783	2,545
Other items	**183,949**	(9,867)		(1,126)
Income (loss) before income taxes, non-controlling interest and equity in income of companies subject to significant influence	**(137,087)**	56,832	50,678	43,849
Income taxes	**18,810**	21,884	20,390	18,150
Income (loss) before non-controlling interest and equity in income of companies subject to significant influence	**(155,897)**	34,948	30,288	25,699
Non-controlling interest	**(50,034)**	(1 107)		
Equity in income of companies subject to significant influence	**11,623**	(5,805)	(181)	(111)
Income (loss) before amortization of goodwill	**(117,486)**	41,860	30,469	25,810
Amortization of goodwill	**3,876**	1,653	80	
Net income (loss)	**$(121,362)**	$ 40 207	$ 30,389	$ 25,810

Financial data and ratios

(in thousands of dollars, except for amounts pertaining to shares)	**2001**	2000	1999	1998
Cash flows provided by current operations	**$ 16,362**	$ 38,417	$ 43,887	$ 39,734
Acquisitions of fixed assets	**(7,786)**	(12,856)	(15,472)	(13,815)
Fixed assets	**76,287**	84,805	73,132	65,915
Total assets	**405,770**	582,409	259,778	238,868
Long-term debt	**53,875**	112,451	19,599	10,636
Shareholders' equity	**$ 169,097**	$321,618	$168,578	$139,101
Debt ratio	**24%**	26%	10%	7%
Per share				
Net earnings (loss)	**$ (3.55)**	$ 1.31	$ 1.06	$ 0.90
Cash flow provided by current operations	**0.48**	1.26	1.53	1.39
Book value	**$ 4.94**	$ 9.49	$ 5.86	$ 4.85

Market share evolution (Province of Quebec francophone market)

(Monday to Sunday, 6 a.m. to 2 a.m., BBM, All 2+)	**2001**		2000		1999		1998	
Spring / Fall (%)	**S01**	**F00**	S00	F99	S99	F98	S98	F97
French-language stations								
TVA Network	**36**	**37**	36	38	40	40	38	41
Société Radio-Canada	**19**	**20**	21	22	22	23	23	22
Réseau TQS	**14**	**14**	13	12	11	10	11	10
Télé-Québec	**2**	**2**	2	2	2	2	1	1
English-language stations	**4**	**4**	4	3	3	4	4	4
American stations	**3**	**3**	3	3	3	3	4	3
Specialty and pay TV channels	**19**	**17**	16	14	13	13	14	13
Others	**3**	**3**	5	6	6	5	5	6

1997	1996
$196,889	$184,082
154,415	148,884
42,474	35,198
11,393	11,941
4,703	6,441
26,378	16,816
10,659	7,983
15,719	8,833
(76)	(264)
15,795	9,097
120	18
$ 15,675	$ 9,079

1997	1996
$ 23,406	$ 28,084
(13,977)	(6,167)
59,249	59,049
231,795	212,147
30,896	40,091
$112,270	$ 96,175,
22%	29%
$ 0.55	$ 0.34
0.82	1.06
$ 3.93	$ 3.38

1997		1996	
S97	F96	S96	F95
38	40	37	38
24	24	24	25
11	10	13	12
2	2	3	3
4	4	4	3
4	4	4	4
12	12	10	10
5	4	5	5

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Drouin, Richard (1) (2)
Corporate Director

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Jauvin, Roger (2)
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La société de gestion
et de développement SGD inc.

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TVA Group Inc. and Quebecor Inc.

Péladeau, Pierre Karl
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Quebecor Media Inc.

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Verreault, Laurent (2)
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GL & V/Celleco Inc.

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(2) Member of the Corporate Governance and Human Resources Committee

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Annual General Assembly
The Annual General Assembly
of shareholders of TVA Group Inc.
will be held at:
Théâtre Arcade
1425, Alexandre-de-Sève
Montréal, Québec
On January 15, 2002 at 9:30 a.m.

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